


**P**ERUVIAN  
OILS & MINERALS  
L I M I T E D

---

**1971**  
**ANNUAL**  
**REPORT**



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# PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

## DIRECTORS:

STANLEY BALL  
Toronto, Ontario

A. LYNDON BELL  
University City, Missouri

JOHN S. GRANT  
Toronto, Ontario

ALFRED E. MacKAY  
Toronto, Ontario

JOSEPH J. RANKIN  
Toronto, Ontario

ROBERT L. SEGSWORTH  
Toronto, Ontario

DELBERT R. WILSON  
Toronto, Ontario

## OFFICERS:

J. J. RANKIN, *President and Managing Director*  
Toronto, Ontario

R. L. SEGSWORTH, *Vice-President*  
Toronto, Ontario

J. S. GRANT, Q.C., *Secretary*  
Toronto, Ontario

W. STEUERMAN, C.A., *Treasurer*  
Toronto, Ontario

## HEAD OFFICE:

Suite 904 - 85 Richmond Street West  
Toronto, Ontario

## PERUVIAN OFFICE:

Edificio Republica, Lima, Peru

## AUDITORS:

CLARKSON, GORDON & CO.  
Toronto, Ontario

## BANKERS:

CANADIAN IMPERIAL BANK OF COMMERCE  
Toronto, Ontario

CHASE MANHATTAN BANK  
New York, N.Y.

## TRANSFER AGENTS AND REGISTRARS:

THE STERLING TRUSTS CORPORATION  
Toronto, Ontario

THE CANADIAN BANK OF COMMERCE TRUST COMPANY  
New York, N.Y.

# PERUVIAN OILS & MINERALS, LIMITED

## *Directors' Report*

To The Shareholders:

This report covers the Corporation's activities for the past year and includes the financial statements for 1971.

In the Opal Area of Alberta (see map included with this report) the Corporation has completed its current drilling program of four wells. A report on the results has been prepared by James A. Lewis Engineering Company Limited, Petroleum Reservoir Analysts of Calgary, Alberta. Based on an initial gas price of  $12\frac{1}{2}\%$  per Mcf, escalating at the rate of  $\frac{1}{4}\%$  per Mcf annually, the report reads, in part, as follows:

"In summary, the Company's proved gas reserves and net cash flow are calculated to be as follows:

	Excluding interest in Mesa block	Including interest in Mesa block
Gross reserves (Mscf) as of January 1, 1972 .....	24,426,000	27,674,000
Net reserves Mscf .....	16,313,000	18,221,000
Net Cash Flow		
Undiscounted .....	\$ 2,155,800	\$ 2,420,800
Discounted @ 8% p.a. ....	\$ 880,000	\$ 1,000,000"

Acquisition by your Company of the interest in the Mesa block referred to above has been agreed to in principle but the formal agreement has not yet been signed by all parties. Completion of a pipeline, which could be financed by a debenture issue, would enable the Company to market the gas at approximately 50% more per Mcf than the  $12\frac{1}{2}\%$  per Mcf used in calculating present value.

During 1971, your Company participated to the extent of 20% in the drilling of two exploratory wells. These were PATP et al Killam at 10-14-43-11 in Alberta and PATP et al Frobisher at 1-19-3-3 in Saskatchewan. During 1972, another exploratory well, Whiterock Shaunavon 4-9-9-18 was drilled in Saskatchewan. Your Company's interest in this project was 15%. All three wells were dry.



Whiterock Oil and Gas Limited, in which Peruvian owns a 40% interest, has with other companies acquired a petroleum production licence in the U.K. continental shelf, in the North Sea near the Norwegian boundary. Whiterock has a 50% interest in this licence and the balance is divided amongst various other companies. A seismic program is expected to be underway shortly.

Your Company's interests in Peru have suffered a setback with the publication on April 6, 1972, of a "Supreme Resolution" cancelling nine of our concessions containing approximately 416,000 acres. The alleged reason for the cancellation was the non-payment of taxes within the specified time limits. This claim is disputed. Although representations have been made both to the Peruvian and Canadian Governments, your directors hold out little hope that these will prove successful.

Peruvian Oils & Minerals continues to maintain its royalty and carried interest in the Aguaytia and Mobil-Union groups operating in Peru. In addition, Peruvian has a 2.069% net profit interest in Compania Minera del Madrigal, a copper-lead-zinc mining operation which has recently commenced milling ore at the rate of approximately 500 tons per day. A milling rate of 600 tons per day is envisaged. Profits will accrue to your Company after development and capital costs have been paid off.

The decline in oil and gas revenue (Schedule 2 to the financial statements) reflects the sale of the Pembia acreage in Alberta on June 1, 1971.

Non-profitable wells in Ohio were abandoned. A small cash flow will continue to be generated by the remaining operating well.

In the Company's 1970 annual report it was stated that consideration was being given to a rights offering and change of the Company's name. The change of name and a rights offering were tentatively scheduled to be presented to shareholders at a meeting to be held in October, 1971. Because there was, at that time, renewed interest in the Oriente region of Peru, where the Company's principal holdings are located, your directors considered any change at that time to be inadvisable.

On behalf of the board,

A handwritten signature in dark ink, appearing to read 'J. J. Rankin', written over a horizontal line.

J. J. RANKIN,

President.

May 31, 1972.

# PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

## Balance Sheet as at

(with comparative figures)

### ASSETS

	1971	1970
Current:		
Cash and funds on deposit .....	\$ 142,060	\$ 43,575
Accounts receivable and accrued interest (note 4) .....	71,467	87,372
Prepaid expenses .....	17,850	2,982
Total current assets .....	231,377	133,929
Property and equipment — at cost less accumulated depreciation and depletion (schedule 1) .....	105,166	494,594
Deferred exploratory and development costs .....	301,615	255,750
Other assets:		
Deposits .....	10,001	8,018
Application for mining claims — Peru .....	1,274	1,274
Investment in and advance to other mining and oil exploration companies — at cost less amounts written off (note 2) .....	46,604	42,604
Total other assets .....	57,879	51,896
	<u>\$ 696,037</u>	<u>\$ 936,169</u>

### Auditors' Report

To the Shareholders of  
Peruvian Oils & Minerals, Limited:

We have examined the balance sheet of Peruvian Oils & Minerals, Limited as at December 31, 1971 and the statements of operations and deficit, deferred exploratory and development costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

# PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

**December 31, 1971**

(at December 31, 1970)

## LIABILITIES

Current:	1971	1970
Bank loan .....		\$ 15,000
Other loans .....		120,000
Accounts payable and accrued liabilities (note 4) .....	\$ 165,232	109,548
Total current liabilities .....	165,232	244,548
Shareholders' equity:		
Capital (note 3) —		
Authorized:		
5,000,000 shares without par value		
(1970 par value \$1.00 each)		
Issued:		
2,931,671 shares (1970 net of \$294,087 discount) ..	2,637,584	2,637,584
Deficit .....	2,106,779	1,945,963
	530,805	691,621
On behalf of the Board:		
A. L. BELL, Director.		
J. S. GRANT, Director.		
	\$ 696,037	\$ 936,169

(See accompanying notes)

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
March 20, 1972.

CLARKSON, GORDON & CO.,  
Chartered Accountants.



# PERUVIAN OILS & MINERALS, LIMITED

## Statement of Operations and Deficit

For the Year Ended December 31, 1971

(with comparative figures for the year 1970)

	1971	1970
Income:		
Income (loss) from oil and gas production (schedule 2) . . . . .	\$ (1,087)	\$ 5,016
Interest income and sundry credits . . . . .	3,283	545
Total income . . . . .	2,196	5,561
General and administrative expenses:		
Remuneration of directors . . . . .	300	300
Accounting, office services and rent . . . . .	21,000	21,000
Interest and bank charges . . . . .	5,589	2,874
Legal and audit . . . . .	9,247	7,194
Transfer agency . . . . .	2,620	8,271
Publicity . . . . .	2,215	2,370
Travel . . . . .	5,649	1,937
Reports to shareholders and meetings . . . . .	7,782	6,260
Foreign exchange (gain) loss . . . . .	(720)	6,803
Other . . . . .	4,316	2,540
Total general and administrative expenses . . . . .	57,998	59,549
Operating loss for year . . . . .	55,802	53,988
Other charges and credits:		
Exploratory and development costs written off —		
Exploratory and development — Peru . . . . .	9,133	
Development — Ohio . . . . .	13,659	
Joint venture and other . . . . .	15,795	38,587
Property and equipment written off — Ohio . . . . .	14,905	4,189
Provision for write-off of certain oil concessions and related exploratory and development expenses in Peru (note 4) . . . . .	52,568	644,849
Investment in subsidiary written off . . . . .		69,508
	106,060	1,040,471
Deduct gain on disposal of oil leases and equipment in the Pembina field — Alberta . . . . .	1,046	
	105,014	1,040,471
Net loss for year (per share 1971 — \$0.06; 1970 — \$0.37) . . . . .	160,816	1,094,459
Deficit, beginning of year . . . . .	1,945,963	851,504
Deficit, end of year . . . . .	\$2,106,779	\$1,945,963

(See accompanying notes)



# PERUVIAN OILS & MINERALS, LIMITED

## Statement of Deferred Exploratory and Development Costs

For the Year Ended December 31, 1971

(with comparative figures for the year 1970)

	Balance December 31, 1970	Additions in 1971	Written off (or sold*) in 1971	Balance December 31, 1971
Exploratory and development expenses in Peru:				
Preliminary exploration .....	\$ 515,083			\$ 515,083
Surface taxes and dues for Govern- ment Petroleum Department ser- vices .....	467,407	\$ 39,261		506,668
Legal and accounting fees .....	88,510	2,892	\$ 10	91,392
Seismograph, geological, survey and topographical expenses .....	116,950			116,950
Boundary survey .....	20,737	8		20,745
Foreign exchange and adjustments .	(35,071)	10,712	937	(25,296)
Interest earned and sundry credits .	(24,623)	(439)	(2)	(25,060)
Other development expenses .....	435,429	9,255	170	444,514
Receipt of option payments .....	(323,750)			(323,750)
	<u>1,260,672</u>	<u>61,689</u>	<u>1,115</u>	<u>1,321,246</u>
Less:				
Concessions annulled, surrendered or in process of surrender .....	607,869		8,018	615,887
Provision for write-off of costs relating to other concessions (note 4) ..	574,849		52,568	627,417
	<u>1,182,718</u>		<u>60,586</u>	<u>1,243,304</u>
	<u>77,954</u>	<u>61,689</u>	<u>61,701</u>	<u>77,942</u>
Exploratory and development expenses in Ohio:				
Total development expenses .....	42,820		27,623	15,197
Less accumulated amortization .	19,192	3,433	13,964	8,661
	<u>23,628</u>	<u>(3,433)</u>	<u>13,659</u>	<u>6,536</u>
Exploratory and development expenses in Alberta:				
Total development expenses .....	135,407	94,707	87,390*	142,724
Less accumulated amortization .	37,652	1,750	39,402	
	<u>97,755</u>	<u>92,957</u>	<u>47,988</u>	<u>142,724</u>
Joint venture and other explorations:				
In Peru .....	56,413			56,413
Other countries .....		33,795	15,795	18,000
	<u>56,413</u>	<u>33,795</u>	<u>15,795</u>	<u>74,413</u>
	<u>\$ 255,750</u>	<u>\$ 185,008</u>	<u>\$ 139,143</u>	<u>\$ 301,615</u>

Note: Consulting fees of \$4,970 paid to directors are included in costs for the year.

(See accompanying notes)

# PERUVIAN OILS & MINERALS, LIMITED

## Statement of Changes in Financial Position

For the Year Ended December 31, 1971

(with comparative figures for the year 1970)

	1971	1970
<b>Source of funds:</b>		
Interest income and sundry credits .....	\$ 3,283	\$ 545
Income (loss) from oil and gas production ..... (1,087)		
Add charges against income not involving a current outlay of funds —		
Depreciation, depletion and amortization .... 24,472	23,385	56,830
Proceeds from disposal of oil leases and equipment in the Pembina field — Alberta .....	375,000	
Recovery of guarantee deposits — Peru .....	7,968	
Disposal of equipment — Alberta .....	92	
— Ohio .....	3,850	
	<u>413,578</u>	<u>57,375</u>
<b>Application of funds:</b>		
General and administrative expenses .....	57,998	59,549
Exploratory and development costs .....	180,417	68,580
Purchase of oil leases (net of rebates received) — Alberta ..	(7,584)	59,708
Purchase of equipment — Ohio .....		36
— Alberta .....		16,931
Advances to other oil exploration company (note 2) .....	4,000	153
Purchase of debentures in Antipodes Explorations Limited ..		1,121
Increase in drilling deposits .....	1,983	1,953
	<u>236,814</u>	<u>208,031</u>
Increase (decrease) in working capital .....	<u>\$ 176,764</u>	<u>\$ (150,656)</u>
<b>Changes in components of working capital:</b>		
Increase (decrease) in current assets —		
Cash and funds on deposit .....	\$ 98,485	\$ (16,251)
Accounts receivable and accrued interest .....	(15,905)	32,675
Prepaid expenses .....	14,868	344
	<u>97,448</u>	<u>16,768</u>
Increase (decrease) in current liabilities —		
Bank loan .....	(15,000)	15,000
Other loans .....	(120,000)	120,000
Accounts payable and accrued liabilities .....	55,684	32,424
	<u>(79,316)</u>	<u>167,424</u>
Increase (decrease) in working capital .....	176,764	(150,656)
Working capital (deficiency), beginning of year .....	(110,619)	40,037
Working capital (deficiency), end of year (note 4) .....	<u>\$ 66,145</u>	<u>\$ (110,619)</u>

(See accompanying notes)

# PERUVIAN OILS & MINERALS, LIMITED

## *Notes to the Financial Statements*

December 31, 1971

- The financial statements are expressed in terms of Canadian currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following bases:

Current assets and current liabilities —	At the closing rate of exchange prevailing at December 31.
Certain expenditures for oil concessions in Peru —	At the exchange rates prevailing on the dates of payment to the Peruvian government.
Expenditures on equipment and deferred exploration and development —	At the average rates of exchange for the years in which expenditures were made.
Revenues and expenses —	At the average rates of exchange for the year, except that provisions for depreciation, depletion and amortization and exploratory and development costs, equipment, and concession costs written-off are at the rates prevailing when the relative expenditures were made.

- The investment in and advance to other mining and oil exploration companies is comprised of:

Antipodes Explorations Limited —		
278,319 shares, at cost .....	39,325	
5% convertible debentures due September 1, 1975, at cost .....	<u>1,121</u>	\$ 40,446
Antaeus Resources Corporation —		
589 shares, at cost .....		2,158
Whiterock Oil and Gas Limited —		
40 shares (40% owned), at cost less amounts written-off .....	<u>—</u>	<u>4,000</u>
Advance .....	<u>4,000</u>	<u>\$ 46,604</u>

No reliable market quotations are available for the above shares and debentures.

- By Articles of Amendment dated May 27, 1971 the corporation changed its authorized and issued share capital from shares of the par value of \$1 each to shares without par value.



Accordingly, the figures for issued share capital have been restated to eliminate the net discount on original issue of \$294,087.

4. Late in 1970 an option agreement covering certain of the concessions held by the corporation in Peru was terminated. Because of uncertainty that the corporation would be able to arrange a similar or other satisfactory continuation of its interest in these concessions, a decision was made by the corporation to provide in the accounts for the write-off of these concessions, and of the related deferred exploratory and development costs in 1970. A similar provision has been made for costs relating to 1971.

The corporation has, however, been negotiating to arrange for a satisfactory continuation of its interest in these concessions, and has continued to provide in its accounts for surface taxes and other expenses required to keep the concessions in good standing.

During 1972, the Peruvian government has taken action to have these concessions annulled for non-payment of the surface taxes. However, the corporation has made strong representations and has taken steps to retain its rights to the concessions.

If the corporation is unsuccessful in retaining such rights, it will not be required to pay the surface taxes as yet unpaid, which are provided (net of amounts receivable under an option agreement) in the amount of \$61,500 as a current obligation as at December 31, 1971 in the accompanying balance sheet. Guarantee deposits of \$30,500 included under property and equipment would, however, be forfeited.

5. In arriving at reported earnings, the corporation computes income taxes on the basis of claiming exploration and development expenditures to the extent that they are an allowable deduction for tax purposes in the year, regardless of the treatment followed in the accounts.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes. As is the case with many other companies in the industry in Canada, the corporation does not believe that tax allocation in respect of exploration and development costs is appropriate at this time. Accordingly, no provision has been made for deferred income taxes for timing difference involving such costs.

If the tax allocation basis had been followed with respect to such costs in current and prior years, the net loss for 1971 would have been increased by \$37,000 or \$.01 per share (no effect in 1970) and the cumulative amount of deferred income taxes to December 31, 1971 related to such costs net of other timing differences would be \$37,000.

Of the property and equipment and deferred exploratory and development costs carried in the accounts at \$406,781 at December 31, 1971, \$194,848 relates to expenditures made in Canada and \$211,933 relates to expenditures made outside Canada. For Canadian income tax purposes \$80,000 of the expenditures made inside Canada are available as an offset against income otherwise subject to tax in future years. Exploration expenditures made outside Canada up to December 31, 1971 are generally not available as a deduction for Canadian tax purposes.

Accumulated tax losses aggregating \$21,000 (the major part of which expires in 1972) are also available as an offset against future taxable income.

PERUVIAN OILS & MINERALS, LIMITED

SCHEDULE 1

Schedule of Property  
and Equipment

December 31, 1971  
(with comparative figures at December 31, 1970)

	1971	1970
South America (Peru):		
Oil concessions —		
Deposits (net of refunds and recoveries) . . . . .	\$ 33,938	
Shares issued at par for commissions and ser- vices relating to investigations and negotia- tions for oil concessions . . . . .	70,000	
	103,938	
Less provision for write-off (note 4) . . . . .	70,000	\$ 33,938
Office furniture and fixtures — at cost . . . . .	3,992	
Less accumulated depreciation . . . . .	3,991	1
Total property in South America . . . . .	33,939	51,681
Western Canada (Alberta):		
Oil leases — at cost (1970 — at cost less accumulated depletion of \$361,908) . . . . .	52,124	262,269
Machinery and equipment — at cost less accumu- lated depreciation of \$92,649 . . . . .		135,531
Total property in Canada . . . . .	52,124	397,800
United States (Ohio):		
Oil leases — at cost . . . . .	41,003	
Less accumulated depletion . . . . .	23,140	17,863
Machinery and equipment — at cost . . . . .	2,240	
Less accumulated depreciation . . . . .	1,000	1,240
Total property in the United States . . . . .	19,103	45,113
Total property and equipment . . . . .	\$ 105,166	\$ 494,594

(See accompanying notes)

PERUVIAN OILS & MINERALS, LIMITED

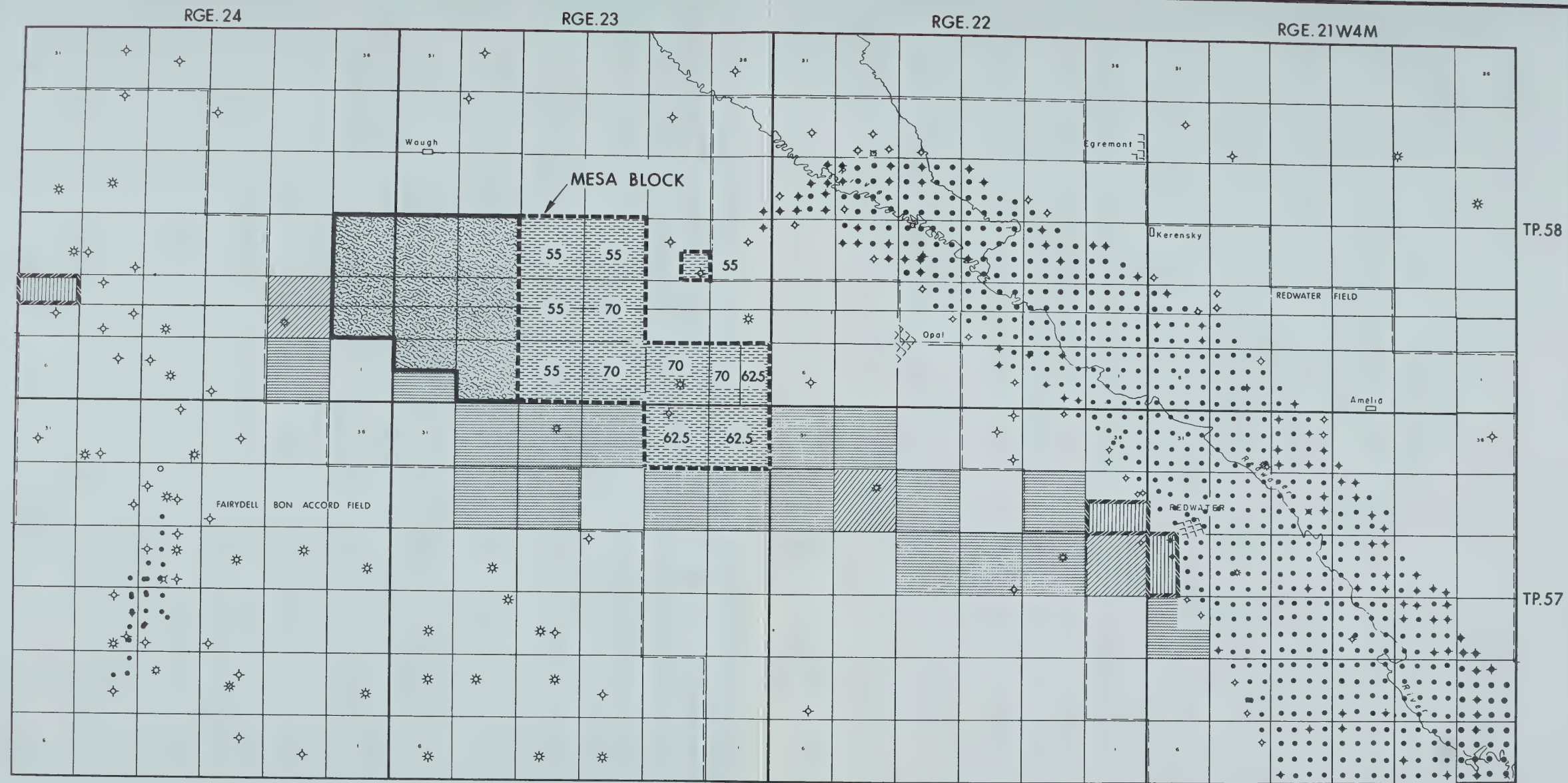
SCHEDULE 2

Schedule of Income from  
Oil and Gas Production

For the Year Ended December 31, 1971  
(with comparative figures for the year 1970)

	1971	1970
Sale of crude oil and natural gas . . . . .	\$ 48,945	\$ 104,962
Production expenses:		
Operating expenses . . . . .	19,629	36,612
Lease rental expenses . . . . .	543	1,318
Field facility and gas collection expenses . . . . .	2,129	4,941
Insurance and taxes . . . . .	3,259	5,261
Depletion of oil leases . . . . .	13,145	26,553
Amortization of development costs . . . . .	5,183	9,411
Depreciation of machinery and equipment . . . . .	6,144	15,850
Total production expenses . . . . .	50,032	99,946
Income (loss) from oil and gas production . . . . .	\$ (1,087)	\$ 5,016

(See accompanying notes)



**WELL LEGEND**

- ✦ ABANDONED
- ✦ ABANDONED OIL WELL
- OIL WELL
- ✦ GAS WELL

**PERUVIAN ACREAGE**

- 55% INTEREST AVAILABLE TO PURCHASE
- ROYALTIES PAYABLE —
- CR + 10% O.R.R.
- CR + 3% O.R.R.
- C.P.O.G. 17.5 %
- C.R. ONLY

FIGURE M1

**LAND MAP**

**PERUVIAN OILS & MINERALS, LIMITED**

**OPAL AREA**

ALBERTA, CANADA

DRAWN BY: JRL	REVISED BY:	JAMES A. LEWIS ENGINEERING CO. LTD. <i>Petroleum Reservoir Analysts</i>
DATE: 26-1-72	DATE:	
APPROVED BY:	APPROVED BY:	
DATE:	JOB NUMBER: 9913	







# PERUVIAN OILS & MINERALS, LIMITED

## STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 1971

(With comparative figures for 1970)

	1971	1970
<b>Income</b>		
Income (loss) from oil and gas production .....	\$ (570)	\$ 5,640
Interest income .....	295	305
	(275)	5,945
<b>General and administrative expenses</b>	35,762	32,267
<b>Operating loss for period</b> .....	36,037	26,322
<b>Other credits and charges</b>		
Net gain on disposal of oil leases in the Pembina field, Alberta ..	(1,407)	—
Development expenses written off	25,795	25,261
Property and equipment written off	17,834	4,189
<b>Net loss for period</b> .....	<u>\$ 78,259</u>	<u>\$ 55,772</u>

# Peruvian Oils & Minerals, Limited

SUITE 904

85 RICHMOND STREET WEST  
TORONTO 1, ONTARIO



## INTERIM REPORT

JUNE 30, 1971



# PERUVIAN OILS & MINERALS, LIMITED

To the Shareholders:

Submitted herewith are the interim financial statements of your Company for the six months ended June 30, 1971.

Since the directors' report to shareholders for the year 1970 and updated to April 30th, 1971, your Company has drilled one additional gas well in the Opal area of Alberta. Three wells have now been completed, tested and capped for the time being. These wells have been tested and the combined Absolute Open Flow is in excess of twenty-seven million cubic feet per day.

One additional well will be drilled shortly to complete the first phase of the programme. Since the testing of the wells has been completed, a consulting firm has been engaged to make a feasibility study of the project.

Preliminary indications are that a viable operation can be forecasted.

The attached Statement of Source and Application of Funds reflects the sale of the Company's Pembina leases and the resulting addition to working capital.

Although production from the field is saleable at the present time, your directors are of the opinion that because of the increasing demand for gas and energy the Company would be ill-advised to hastily enter into a firm gas sales agreement. The special shareholders' meeting, originally estimated in the 1970 Annual Report to be called by October, 1971, may be delayed.

J. J. RANKIN,  
President.

August 20, 1971.

# PERUVIAN OILS & MINERALS, LIMITED

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Six Months Ended June 30, 1971  
(With comparative figures for 1970)

Source of Funds	1971	1970
Income (loss) from oil and gas production .....	\$( 570)	\$ 5,640
Add depreciation, depletion and amortization .....	20,142	27,167
	<u>19,572</u>	<u>32,807</u>
Interest income .....	295	305
Refund of oil concession deposits — Peru .....	8,167	—
Reduction in drilling deposits — Alberta .....	4,017	—
Proceeds of sale of Pembina leases — Alberta .....	375,000	—
Disposal of equipment — Alberta .....	93	—
— Ohio .....	922	364
	<u>408,066</u>	<u>33,476</u>
<b>Application of Funds</b>		
General and administrative expenses .....	35,762	32,267
Exploratory and development costs .....	45,261	3,895
Purchase of equipment — Alberta .....	1,542	14,306
Purchase of Petroleum and Natural Gas leases — Alberta .....	11,097	—
Advances to subsidiary company .....	—	153
	<u>93,662</u>	<u>50,621</u>
Increase (decrease) in working capital during period .....	314,404	(17,145)
Working capital (deficiency) — beginning of period .....	(110,619)	40,037
Working capital — end of period	<u>\$ 203,785</u>	<u>\$ 22,892</u>